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LATIN AMERICA

Tío Sam's Big Financial Stick

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After five years of Reaganism, Tío Sam looks uglier than usual, bashing little countries in Central America and the Caribbean and taking food from the hungry throughout the region. But if the bully seems meaner, he is also perceived by Latin Americans as being weaker; none of their governments have a $200-billion-plus deficit.

Despite Latin Americans' near-unanimous hope that the gringos will go home, Washington doggedly pursues its military policies in Central America. The Contadora initiative survives not as a mechanism to end the *contra* war, since the Latin Americans know perfectly well that Washington has no intention of renouncing its warmongering, but as a symbol of unity against the interloper. Regional solidarity has also coalesced around the foreign debt issue, but here the Latin Americans feel they are in a stronger position as the Achilles' heel of the U.S. financial system: if they go under, so will some American banks.

The knowledge that the United States has become a debtor nation just like themselves has tempered the Latin Americans' traditional awe of it. Yet no head of state, including Fidel Castro, has repudiated the region's $370 billion debt, the largest part of which is held by U.S. banks. Several countries have stopped making interest payments, including Bolivia and Peru, and all agree they will never be able to repay the principal. Still, it would take unusual courage, or foolhardiness, to tell Citibank and Chase Manhattan to go to hell.

Fear of an economic embargo and the loss of trade with Europe and Japan has forced Latin American governments to continue the debt charade so that U.S. banks can pretend solvency. But it is clear that the game cannot continue much longer. Statistics from the United Nations Economic Commission for Latin America and the Caribbean show that the region transferred $30 billion to the First World last year, mostly for debt repayment. The total net capital outflow from 1981 to 1985 was a staggering $106 billion. Meanwhile, most Latin American economies have stagnated, and per capita incomes have fallen to 1977 levels. "If Latin America does not succeed this year in reversing the negative trends," warned Uruguayan President Julio Sanguinetti, "we will witness some blowup somewhere."

The recent crash in oil prices is bound to hasten a crisis somewhere, most likely in Mexico. So far Washington has offered only patchwork solutions, such as buying larger quantities of Mexican oil and encouraging U.S. banks to lend Latin Americans more money under the so-called Baker plan. Proposed last fall by Treasury Secretary James Baker 3d, the plan has several major flaws. One is its premise that American banks will voluntarily throw good money after bad without a U.S. government guarantee against default. Another is the demand that Latin Americans further tighten their belts when a majority do not have enough to eat. Even if foreign banks met Baker's target of $29 billion in loans over the next three years, the amount is a pittance compared with debt payments due during that time. Nor would the plan give Latin American economies sufficient breathing space to grow again. As Castro has observed, financial tinkering will not solve a problem that has become structured into relations between the Third and First worlds.

Many Latin American leaders have concluded that the Baker plan was just a ploy to draw attention from the "Cuban syndrome," which developed last year following a series of debt conferences in Havana attended by important Latin American politicians, businessmen, labor representatives and Catholic bishops. Their conclusion—that the debt cannot be repaid—resurrected the specter of a debtors' club; hence, Washington's sudden offer of more money.

While fear of economic reprisals is the greatest obstacle to such a club, political considerations also militate against excessive independence. Peru's reformist President, Alan García, has been able to limit debt payments to 10 percent of export earnings only because his country had already fallen so far behind on payments when he took office last summer that bankers were delighted to get 10 percent. But García has not so much as hinted at a moratorium. Even giant Brazil, which has no qualms about talking back to the International Monetary Fund and which frequently postpones debt payments, will not go so far. "What's Brazil afraid of?" wondered a South American politician active in promoting a debtors' cartel. "The marines couldn't invade so big a country!"

Well, no, but the Central Intelligence Agency could certainly encourage disgruntled military men to mount a coup, as it did in 1964. Almost every country in Latin America has been the target of destabilization efforts supported by the United States because a government crossed swords with U.S. business interests, and they all know that the C.I.A. has been monitoring debt meetings. Although the pendulum in Latin America has swung away from military dictatorships and toward elected governments, the armed forces retain substantial power. Most military leaders have had U.S.

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training, insuring that they will identify their countries' interests with those of the United States.

Fear of their own armies has also led the South Americans to view the Central American morass with trepidation. Although unenthusiastic about the Sandinistas, South Americans deplore the *contra* war and would like to distance themselves from the whole mess, but the Reagan Administration has encouraged the region's military leaders to blame the Sandinistas for insurrections in the Andean countries. Although there is no evidence that such a link exists, State Department propaganda is used by the political right and its military allies to frustrate reforms. In Colombia, for example, where President Belisario Betancur was severely criticized for having attempted to negotiate a truce with the guerrillas, Secretary of State George Shultz gave Betancur's enemies ammunition by claiming that the Sandinistas had masterminded last November's guerrilla attack on the Palace of Justice in Bogotá. The story was pure invention and so ill conceived that even the Colombian Defense Ministry rejected it. Nevertheless, the brouhaha damaged Betancur's credibility and nearly forced him to break relations with Nicaragua.

Betancur's experience has not been lost on other South American leaders, who, however much they would like to forget the debt and Nicaragua, walk softly in the presence of the man with the big stick—particularly because Reagan cannot tell the difference between Bolivia and Brazil and is capable of hitting them all with it. □